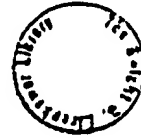


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NATIONAL SECURITY COUNCIL

OPERATIONS COORDINATING BOARD REPORTS
(September 3, 1958)

on

U. S. POLICY TOWARD GERMANY
(NSC 5803)

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E.O. 12336, SEC. 3.4 (b)

MR 85-717#2

BY LHO DATE 7/6/87

PORTIONS EXEMPTED

E.O. 12356, SEC. 1.3 (a) (5)

NSC letter 6/19/87

NLE DATE 7/6/87

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

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September 4, 1958

MEMORANDUM TO: Mr. James S. Lay, Jr.
Executive Secretary
National Security Council

SUBJECT: Reports on Germany (The Federal Republic of Germany, Berlin, and East Germany) (NSC 5803) dated September 3, 1958

The attached Reports by the Operations Coordinating Board on United States policy toward Germany (The Federal Republic, Berlin, and East Germany) (NSC 5803) dated September 3, 1958, covering the period from July 17, 1957 through September 3, 1958, were concurred in by the Board on September 3, 1958 for transmittal to the National Security Council.

U. S. policy in relation to Germany (NSC 5803) has been found to be consistent with Basic National Security Policy (NSC 5810/1).

Elmer B. Staats
Elmer B. Staats
Executive Officer



Attachments

9/3/58 Reports on Germany
(NSC 5803)

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

September 9, 1958

MEMORANDUM FOR: Mr. James S. Lay, Jr.
Executive Secretary
National Security Council

SUBJECT: Updating Supplement to the OCB Reports on Germany (The Federal Republic of Germany, Berlin, and East Germany) (NSC 5803), dated September 3, 1958

In supplement to the OCB Reports on Germany, dated September 3, 1958, covering the period from July 17, 1957 through September 3, 1958, the following information is provided:

1. Notable Defection to the West of East German Intellectuals

As a result of statements made by West German leaders, particular attention has been drawn to the continuing problem of the flight of population from East Germany to Berlin and to the Federal Republic. The flight of numerous East German intellectuals has reached a much larger proportion of the movement than ordinarily. The defection of Professor Joseph Haemel has been most notable. He was Rector of the University at Jena, and fled to the West just prior to the celebration planned for the four hundredth anniversary of the University.

Elmer B. Staats
Elmer B. Staats
Executive Officer

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OPERATIONS COORDINATING BOARD SECRET

Washington 25, D. C.

September 17, 1958

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MEMORANDUM FOR: Mr. James S. Lay, Jr.
Executive Secretary
National Security Council

SUBJECT: Additional Updating Supplement to the September 3, 1958
OCB Reports on Germany (Federal Republic of Germany,
Berlin, and East Germany) (NSC 5803).

In addition to the September 9, 1958 updating supplement to the NSC on the OCB Reports on Germany of September 3rd, the Department of State today has provided the following supplemental information on major developments in Germany since the cut-off date of the Reports:



1. Federal Republic - German Reunification. The Federal Republic handed an Aide Memoire to the British-French-Soviet-United States Ambassadors in Bonn on September 9, drawing attention to a resolution passed by the German Parliament in July. The resolution called for the establishment of a Four-Power Group to begin work on negotiations on the German question with a view to the reunification of Germany. We are now consulting with the British and French regarding our reply.

2. East Germany. On September 5 the Soviet Zone regime sent us a Note through the Czech Foreign Office asking that the Four Powers set up a Four-Power Group to prepare a German peace treaty and facilitate direct negotiations on the German question between the Federal Republic and the GDR. This was clearly designed to steal the thunder from the Federal Republic and was sent directly after Foreign Minister Brentano announced he was about to send a Note on reunification to the Four Powers. We have told the press we do not intend to answer the Soviet Zone Note.

3. Adenauer-DeGaulle Meeting. The first meeting between Chancellor Adenauer and General De Gaulle took place on September 14 at Colombey-les-Deux-Eglises. Their meeting was reportedly very cordial but we have not yet received any detailed information regarding their conversation.

4. Report to the North Atlantic Council on European Security and Germany. The North Atlantic Council received a report on European security and Germany on September 10 based on the work

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of the U. S. - U. K. - French-German Working Group on German reunification. The Council intends to discuss this report on September 24.

Elmer B. Staats
Elmer B. Staats
Executive Officer



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September 2, 1958


**OPERATIONS COORDINATING BOARD
REPORT ON GERMANY (THE FEDERAL REPUBLIC)**
(NSC 5803)

(Approved by the President on February 7, 1958)
(Period Covered: From July 17, 1957
Through September 3, 1958)

A. SUMMARY EVALUATION

1. This period brought no basic change in the situation in Germany. As far as the situation within the Federal Republic is concerned, there was continued progress toward the accomplishment of U.S. policy objectives. U.S.-German relations remained close and cordial. The political stability of the Federal Republic and the West Germans' repudiation of extremism and attachment to Western-oriented political parties was confirmed anew in the third Bundestag elections and the North Rhine-Westphalia elections. The economic boom continued, although at a somewhat less accelerated rate. European integration with German participation took important steps forward with the establishment of the European Economic and Atomic Communities. Efforts to obtain German collaboration in the pursuit of Western objectives in Eastern Europe and in the Near East and other "uncommitted areas" had limited success. Gradual progress was made towards achieving the reduced NATO goal for the German military establishment, but obstacles remained to be overcome in the retarded buildup of the Air Force and in wide-spread opposition to the stationing of nuclear weapons in Germany.

2. No discernible progress was made towards national reunification and the elimination of Soviet influence in East Germany, although the Western position in Berlin was fully maintained. The Soviet Union clearly indicated its unwillingness to resume discussion of reunification at a summit conference. There were signs that new efforts might be required to deflate ill-considered and dangerous proposals, for example, the scheme for the "confederation" of the two parts of Germany, which could derive support within Germany from impatience at the lack of a solution of the German problem and to some extent from misgivings about the effectiveness of Western defense arrangements.



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3. A review of policy is not recommended.

B. MAJOR OPERATING PROBLEMS OR DIFFICULTIES FACING
THE UNITED STATES

4. German Reunification.

a. No progress was made toward a solution of the basic German problem -- that of national reunification. The problem was reviewed in connection with the possibility of another summit conference. The U.S., U.K. and France took the position that another summit conference, if held, should resume discussion of German reunification and European security where it broke off at the Geneva Conference of 1955 and that they should press toward an agreement with the U.S.S.R. on the basis of the Eden Plan or some modification thereof. The U.S.S.R., on the other hand, persisted in its contention that reunification should be worked out in negotiations between the "two German States" rather than among the Four Powers, and the East German Communists played a variant of this theme by calling for a "confederation" of the Federal Republic and the "German Democratic Republic". Chancellor Adenauer believed it important that a summit conference not fail solely over the issue of inclusion of the German problem as an item of the agenda, and he apparently considered that more progress might be made toward a solution of this problem if the Four Powers could first reach an understanding on disarmament.

b. The attitude of the German population continued to be more one of resignation than of restiveness, but there were indications that the prolonged stalemate might be persuading a greater body of opinion of the inevitability of making greater concessions toward the Communist position. The Opposition showed a growing disposition to deal with the East German regime, and increased contacts with the GDR were in fact endorsed by the National Convention of the SPD.

5. West German Contribution to European Defense.

a. Among the most pressing problems with relation to Germany continued to be that of assuring an adequate contribution by the Federal Republic to Western defense. Progress was made toward the attainment of the reduced West German force goals fixed by NATO.

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b. The German armed force increased its strength to about 140,000 men. Seven divisions, at less than full combat strength, were turned over to NATO. Another two divisions will be activated in the fall of 1958. The buildup of the Air Force was delayed by a lack of trained pilots and airfields but training under American supervision progressed satisfactorily. A small Naval arm has limited combat ability in the Baltic. According to the latest German plans, twelve divisions, 40 air squadrons and a small naval arm, comprising a total of about 350,000 men, will constitute the German military establishment in 1961. Military expenditures are expected to increase sharply and will total Deutschmarks 21 billion by 1961, including aid to Berlin.

6. Nuclear Weapons in Germany.

a. A serious, although perhaps transitory, problem in connection with the prosecution of the defense and foreign policies of the Federal Government arose from wide-spread opposition to the stationing of nuclear weapons in Germany. Many Germans feel that the acceptance of nuclear weapons would increase the risk of a third World War and threaten Germany with atomic destruction. Largely for the lack of other issues, the Opposition attempted to gain the support of this body of opinion by seizing on the issue of nuclear armament as the principal theme for its attacks on the Federal Government. The SPD, with considerable support from trade union and professional circles, pulled out all stops in a "Campaign against Atomic Death" which reached its peak on the eve of the North-Rhine-Westphalia elections in July 1958. The SPD's endorsement of plebiscites and warning strikes indicated the temper of the dispute. Although the principal objective was to bar nuclear capability for the Bundeswehr, propaganda was directed against atomic weapons in general and thus against possession of them by U.S. forces in Germany.

b. The Federal Government was, however, able to win the approval of the Bundestag in March 1958 for the equipping of the Bundeswehr with "the most modern weapons" (a euphemism for nuclear capabilities) and the North-Rhine Westphalia election indicated that the "atom death" campaign influenced few votes. In short, the Opposition argument that the stationing of nuclear weapons in Germany will prevent German reunification had no more immediate effect than the earlier argument that the creation of a German armed force would prevent reunification. The uneasiness expressed so vociferously by the Opposition is, however, privately shared by some supporters of the Government.

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7. Franco-German Relations. The accession of de Gaulle appeared to have raised a new problem for Franco-German relations and understanding, which previously had been developing in a very satisfactory fashion. Federal German leaders feared that de Gaulle might undertake a reorientation of French policy, laying more stress on French national interests and prestige, to the detriment of European cooperation. Specifically, the Germans were concerned about possible French attempts to reorganize NATO defense arrangements, about France's desire to become a fourth atomic power, about de Gaulle's known reservations regarding German reunification, about de Gaulle's desire to restore formal "tripartitism" (collaboration of the U. S., the U. K. and France) and the danger that Germany would thereby be relegated to a secondary position, and about de Gaulle's apparent reluctance to commit France to a solution of the issue of a Free Trade Area. The problem was complicated by the facts that some Germans saw parallels between de Gaulle's and Hitler's accessions to power and that de Gaulle and Adenauer had not yet met.

8. Federal Republic's Relation to Underdeveloped Areas. The United States policy of encouraging substantially increased West German financial and technical assistance to underdeveloped areas, both directly and through appropriate international institutions, had limited success. The Federal Republic continued to express its interest in the underdeveloped areas in various forums and made clear both its awareness of the need to forestall Soviet penetration into these areas and its desire to expand trade with these areas. While the Federal Republic made suggestions for increased coordination with the United States in aiding underdeveloped areas, it became increasingly clear that German assistance will usually take the form of credit insurance to German exporters and loans to international organizations and will rarely take the form of making available public funds directly to other countries. The Germans have indicated that additional possibilities of private or public aid for underdeveloped countries are limited as far as the Federal Republic is concerned and, in particular, have taken a negative attitude toward European initiatives in the NATO and OEEC for multilateral arrangements for aid to underdeveloped countries. (See paragraph 16 in Annex A.)

9. Return of German Assets. On July 31, 1957 the White House announced the Administration's intention to submit as a matter of priority to the next session of Congress a plan providing for the

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payment of all legitimate war damage claims of American nationals against Germany and an equitable monetary return to the former owners of vested German assets. The German Federal Government expressed its grave disappointment with the terms of the Administration proposal and asked that the submission of a draft bill be deferred. The Germans were advised that the proposal for an equitable monetary return to former owners of vested assets could be deferred, as they requested, but that it would be necessary to go forward with a separate American claims bill. Such a separate draft bill, for the payment of the war damage claims of American nationals against Germany from the proceeds of vested assets, was submitted to Congress July 8 by the Foreign Claims Settlement Commission on behalf of the executive branch. Just prior to its adjournment on July 4, the German Parliament unanimously adopted a resolution requesting the German Federal Government to work vigorously for the settlement of the question of German assets vested in the United States and to pay particular attention to the proposed draft bill for the payment of American war damage claims from vested assets.

10. Support Costs. The Federal Republic and the United States reached an agreement on June 7, 1957 under the terms of which the Federal Government paid \$77.4 million to cover partially the Deutsch. Mark costs of maintaining U. S. troops in Germany during FY 1958. This sum was half of the amount received in the previous year. The United States has approached the Federal Government several times since the fall of 1957 for an additional \$77.4 million, but the Germans have refused to pay us any further support costs. The approach was made pursuant to the agreement of June 7 in which we had reserved the right to bring up the matter again if we so desired.

11. London Debt Settlement. Under the Anglo-German support cost arrangements recently approved in NATO, Germany agreed to pay the British a lump sum constituting installments otherwise due in 1961-1964 on its post-war debt. Should the Germans not make a proportional payment to us, they must obtain a waiver of our rights to equal treatment provided for in the London Debt Agreements. However, the German Government, in stating to parliament that it will not pay additional troop costs to the U. S., recently indicated that it may be prepared to accelerate payments on its post-war debt to the U. S.

NOTE: See latest National Intelligence Estimate NIE 23-57, dated 5 November 1957, "The Outlook for Germany".

Attachments:

Annex A - Additional Major Developments
Financial Annex and Pipeline Analysis

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ADDITIONAL MAJOR DEVELOPMENTS

ANNEX A

12. Bundestag Elections. The third Bundestag election on September 17, 1957 resulted in an overwhelming victory for the leading party of the governing coalition, the CDU/CSU, which won 270 of 497 seats. The election thus assured the continuation of the Government which, under Chancellor Adenauer, has guided the Federal Republic since its creation in 1949. The SPD won 169 seats, the FDP 41, and the DP 17. The election results confirmed the trend toward a two party (CDU/CSU and SPD) system in the Federal Republic. The CDU/CSU also obtained an absolute majority in the North Rhine-Westphalia elections on July 6, 1958, thus winning back control of the Government of the Federal Republic's largest state and cotaining better than a two-thirds majority in the Bundesrat.
13. Levelling Off of the German Economic Boom. The exceptionally high rates of economic growth in the Federal Republic during recent years have been tapering off since late 1956. In its earlier phase, this development was occasioned by the almost full utilization of most resources, including manpower. Toward the end of 1957, the levelling-off process coincided with a decline in export orders whose effects will probably become more pronounced later in 1958 but are not expected to be severe. Furthermore, internal demand remains strong and can be encouraged if necessary by government policies. The outlook therefore is one for continued but more balanced growth.
14. European Integration. The integration of the Federal Republic into the Western European community took a long step forward January 1, 1958 when the European Economic Community (Common Market) and the European Atomic Community (EURATOM) came into being. The Federal Republic plays an important role in both organizations.
15. Franco-Italo-German Cooperation in Weapons Research, Development, and Manufacture. In early 1958, the Governments of Germany, Italy, and France agreed to undertake a coordinated approach to the development and production of military weapons. At first many of the NATO countries feared that this arrangement (FIG) would be inimical to plans for cooperation in this field on an all-NATO basis. Recently, however, statements made by FIG spokesmen, particularly Defense Minister Strauss of Germany, and the willingness

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of the FIG countries to keep NATO informed and to cooperate in this field with the WEU and NATO have done much to allay such fears. After presentation in NATO, Belgium and the Netherlands joined the group and it was re-formed into an official NATO Working Group. Technical experts of the five countries have been meeting in order to work out the details of development and production planning including the extension of financial participation of these countries. Three major projects under discussion at the moment are the development of a solid fuel IRBm, Sidewinder, and a surface-to-air missile of the Hawk type. Beyond this NATO recognition, FIG cooperation is evidenced by the agreement between Germany and France relating to joint research and development work to be done at the French military research center in St. Louis. Fears were also aroused that FIG would develop nuclear weapons in France, but Minister Strauss has stated Germany is interested in the use of atomic energy for such purposes as the propulsion of ships but not in the production of atomic weapons. The FIG agreement as such neither expressly includes nor excludes joint production of atomic weapons. There have been recent indications that the new French Government may have certain reservations regarding the FIG arrangement.

16. German Contributions to Underdeveloped Areas. (See paragraph 8 of the Report.) In contributing to underdeveloped areas, the Federal Republic has:

- a. established a technical assistance program for underdeveloped areas which appears to be in the neighborhood of \$12 million annually; it is not clear how much of this accumulating sum has been committed and spent;
- b. made a commitment of \$200 million contribution to the overseas investment fund of the European Economic Community (Common Market);
- c. maintains a revolving fund of \$2.3 billion for export credit insurance, mainly to under-developed countries;
- d. indicated its intention to fund over a three-year period \$157 million of the \$330 million owed to the Federal Republic by India on current account;
- e. agreed to contribute \$50 million to a loan to Turkey for imports from the OEEC countries;

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f. loaned \$250 million to the World Bank in U.S. dollars;

g. is contributing less than half a million dollars to the United Nations Technical Assistance Fund for 1958 (as compared with a contribution of \$2.2 million by the United Kingdom; \$1.5 million by France; \$1.1 million by the Netherlands; \$2.0 million by Canada, and \$1.5 million by the United States); and

h. made voluntary contributions from 1950 to date to UNRWA (Palestine Refugees) in the total amount of \$65,400. In addition, Germany has now pledged \$360,000 for UNRWA's 1958 program.

17. Breaking of Relations with Yugoslavia. With considerable reluctance, the Federal Republic severed diplomatic relations with Yugoslavia in October 1957 after Yugoslavia extended diplomatic recognition to the "German Democratic Republic" (GDR). The Federal Republic feared that its failure to react to the Yugoslav recognition of the GDR might encourage other states, particularly the "uncommitted" ones, to follow suit. It now seems that both Yugoslavia and the Federal Republic desire to find some formula for re-establishing diplomatic relations.

18. Agreements with U.S.S.R. In April 1958, after nine months of difficult negotiations, the Federal Republic concluded Trade and Consular Agreements and an understanding on the repatriation of German nationals with the U.S.S.R. As evidenced by the attacks on the Soviet Embassy at Bonn and the Federal German Embassy at Moscow after the announcement June 17 of the execution of the leaders of the Hungarian revolt, the progress toward the normalization of formal relations did not denote an improvement in the general political relations between the two countries.



19. Relations with the Satellite Area. The Federal Government and popular opinion within the Federal Republic showed increasing interest in the establishment of closer relations with the countries of Eastern Europe, especially with Poland. Sympathy with Poland's efforts to win a greater measure of freedom from the U.S.S.R. tended to offset antipathy based on the Polish annexation of former German territory. However, the Federal Government was inclined to move slowly in this area, primarily because of the fear that the establishment of formal relations with countries of the Eastern European area (which already have relations with the "German Democratic Republic") might tend to give greater currency to the Soviet-sponsored concept of the existence of "two German States".

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20. Status of Forces Arrangements. In December 1957 the German Federal Government submitted a memorandum setting forth the "final" German proposal on the main outstanding issues in this multilateral negotiation to work out arrangements supplementing the NATO Status of Forces Agreement as a replacement for the Bonn Forces Convention. In May 1958 the Ambassadors from the "sending states" (U.S. - U.K. - France - Belgium - Denmark - Netherlands - Canada) presented to the German Foreign Office a written reply accepting the principles of the German proposal as a basis for concluding the Status of Forces negotiations. The Conference has been resumed accordingly, and it is hoped that the negotiations may be finished this summer. It is anticipated that, after conclusion of the negotiations and before final signature can be authorized, the governments concerned may require some months to review the extensive and complicated provisions contained in the supplementary arrangements.

21. Overflight Problems. The Soviets have refused to authorize flights of U.S. aircraft over the Soviet Zone east of Berlin (i. e., outside the quadripartitely established Berlin air corridors), maintaining that such authorization must be sought from the GDR, which, as a "sovereign state", exercises control over its own airspace. An implied threat by the Western Powers to refuse permission for Soviet overflight of the Federal Republic in retaliation has failed to change the Soviet position. The Soviets have declared that they do not regard the U.S., U.K. and France as responsible for controlling Soviet overflights of the Federal Republic and attempted to obtain such permission directly from the Federal Republic instead. The Federal Republic has recommended that the Western Powers propose to the Soviets an arrangement under which all Four Powers will have unrestricted overflight rights over both parts of Germany and Berlin will at the same time be opened to international aviation on a normal basis. (See paragraph 7 of the Berlin Report of this date.)

22. Reaction to U.S. Landing in Lebanon. The U.S. action in landing troops in Lebanon was sharply criticized by a majority of the West German press, which took the line that such action, involving as it did a serious risk of major war, had been taken without adequate consultation with the Germans or appropriate consideration of legitimate German interests. Concern was also expressed that American

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troops had been sent from Germany to Lebanon, a practice which, it was felt, could contribute to weakening the Federal Republic's own defense, and to undermining its good relations with the Arab world. The German reaction also appears to have been colored by recollections of the Hungarian and Suez affairs of 1956. The Federal Government conspicuously failed at first to give its American ally the moral support which might have been expected under the circumstances, although such support was later given in somewhat reserved fashion. Since the situation in the Middle East is no longer critical, further U. S. -German difficulties on this score are not expected, but the development appears noteworthy as a symptom of the Germans' desire or intention to exercise somewhat more independence in the field of foreign policy.

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FINANCIAL ANNEX TO REPORT ON GERMANY (Consolidated figures for Federal Republic, Berlin and E. Germany)

(In millions of dollars over \$5 million. Up to \$5 million
shown in nearest tenth million.)

EXPENDITURES AND DELIVERIES - CERTAIN U.S. ACTIVITIES

Activity	FY 1957	FY 1958		FY 1959
		Estim. thru 3/31/58 1/	Estim. Total	
<u>Military Assistance (see a/ & b/ in Pipeline Analysis)</u>	483.7	114.9	146.6	33.4
<u>Economic Assistance</u> 2/	9.9	-	9.0	10.
<u>Technical Assistance</u> 3/	.2	-	.1	.3
<u>Information Services:</u>				
<u>Federal Republic</u>				
Berlin	6.5	-	4.7	4.5
East Germany (RIAS)	.5	-	.4	.4
	3.4	-	3.2	3.2
<u>Educational Exchange</u>	1.67	-	1.3	1.28
Totals	505.87	114.9	165.3	53.08

<u>MAP Sales of Milit. Equip't. & Svcs.</u>	17.8	186.9	197.5	n. a.
<u>Offshore Procurement Pay'ts.</u>	3.8	n. a.	4.3	1.4
<u>Other U. S. Govt. Payments</u> (effectg. intl. bal. of pay'ts., mil. & civ. pay, construction, proc't. of U. S. mil. supplies & equip't.)	412.7	n. a.	525.	525.

- 1/ - Defense figures indicate actual expenditures through March 31, 1958.
2/ - Applies only to Berlin and East Germany; no assistance is being
provided to Federal Republic.
3/ - Applies only to Berlin.
n. a. - Not available.

LOANS

By	During Reporting Period: 7/1/57-6/30/58			As of June 30, 1958	
	Disburse- ments	Repay- ments	New Loans Authorized	Undisbursed Commitment	Outstand- ing Debt
IBRD	-	-	-	-	-
Ex-Imbank	1.8	.05	0	7.3	2.7

PUBLIC LAW 480 AGREEMENTS: (see next page)
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Financial Annex to Report on Germany (continued)

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PUBLIC LAW 480 AGREEMENTS:

Date	Title	Amt.	Est. % Deliv.	Major Commodities	Use of Local Currency or Other Comment
12/23/55	I.	1.2	100	Poultry	U. S. purposes
"	II	2.7	100	Dairy prods.	Emergency relief
"	II	.8	100	Grains	Flood relief(E. Germ.)
Before FY 1956	III	59.	100	Cereals, dairy prods.	Voluntary relief
FY 1956	III	33.1	100	" "	" "
FY 1957	III	15.4	100	" "	" "
FY 1958	III	16.1	100	" "	" "

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PIPELINE ANALYSIS, MUTUAL SECURITY PROGRAM
(in millions of dollars)

GERMANY

(Consolidated figures for Federal Republic, Berlin and East Germany)

MILITARY ASSISTANCE: a/ and b/

	<u>Program</u>	<u>Deliveries</u>	<u>Carryover</u> (at end of period)
Prior to FY '57	836.3	94.7	741.6
FY 1957	3.5	483.7	261.4
FY 1958(estim)	3.6	146.6	118.4
FY 1959(estim)	2.5	33.4	87.5

ECONOMIC ASSISTANCE: c/

	<u>Obligations</u>	<u>Expenditures</u>	<u>Carryover</u> (at end of period)
Prior to FY '57	1,547.9	1,542.0	5.9
FY 1957	10.7	9.9	6.7
FY 1958	8.3	9.0	6.0
FY 1959(estim)	10.7	10.0	6.7

TECHNICAL ASSISTANCE: c/

	<u>Obligations</u>	<u>Expenditures</u>	<u>Carryover</u> (at end of period)
Prior to FY '57	3.0	2.4	.6
FY 1957	.2	.2	.6
FY 1958	.1	.1	.6
FY 1959(estim)	.2	.3	.5

a/ - Includes value of all grant military assistance, whether on a country, regional or worldwide basis, with the exception of the value of excess stocks. (In the MAP programming process, country programs include materiel and equipment, training and dollar costs of consumables and construction. Regional or worldwide programs include items such as packing, crating, handling and transportation; spare parts; cost of rehabilitating excess stocks; and advanced weapons as appropriate.) Represents value of materiel and services actually received or to be received by the Federal Republic of Germany.

b/ - Excludes \$0.2 million programmed from stocks excess to United States Service or other MAP requirements all of which has been delivered.

c/ - No economic assistance has been provided to the Federal Republic since FY 1954.

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September 3, 1958

**OPERATIONS COORDINATING BOARD
REPORT ON GERMANY (BERLIN)
(NSC 5803 - Supplement I)**

(Approved by the President, February 7, 1958)
(Period Covered: From July 17, 1957
Through September 3, 1958)

A. SUMMARY EVALUATION

1. This period brought no basic change in the situation in Berlin. The Western position was successfully maintained. The U. S. S. R., no doubt deterred by a clear realization that the city could be made untenable to the Western Powers only at the risk of major war, appeared disinclined to resort to drastic measures to bring Berlin within its area of control, preferring instead to try to effect a gradual erosion of the Western position and of Berlin's resistance. Chronic Communist harassment continued to be one of the prices of maintaining Berlin as an outpost of freedom. However, this harassment came in the main from Communist attempts to bolster the prestige of the GDR regime and the economy of the Soviet Zone rather than measures directed primarily at undermining the Western position in Berlin.

2. The continued advance in West Berlin's economic situation was best symbolized by the drop in unemployment to a postwar low, but the rate of economic recovery appeared to be levelling off. West Berlin's standard of living is now 98% of the Federal Republic average. The Berlin aid program is effectively demonstrating American support in tangible form.

3. A review of policy is not recommended.

**B. MAJOR OPERATING PROBLEMS OR DIFFICULTIES FACING
THE UNITED STATES**

4. Communist Pressures. The year was replete with rumors and threats of Communist action directed against Berlin, with particular emphasis on the elimination of the remaining contacts between

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Western Sectors and the Soviet Sector and Zone. Concern reached a critical period in October and November 1957, following the currency reform in the Soviet Zone. The only threatened measure which has materialized to date was the rerouting of through rapid transit (S-Bahn) passenger traffic from the Soviet Zone to the Soviet Sector to by-pass the Western Sectors. However, there are still indications that the Communists are attempting to find ways to stop the flight of refugees to West Berlin, to prevent East Germans from working in West Berlin, to prevent purchases by East Germans in West Berlin, to hamper anti-Communist propaganda activities directed from West Berlin, and in general to eliminate, insofar as possible without incurring grave risks, the adverse influence which Free Berlin exerts on their attempts to communize East Germany.

5. Access to Berlin.

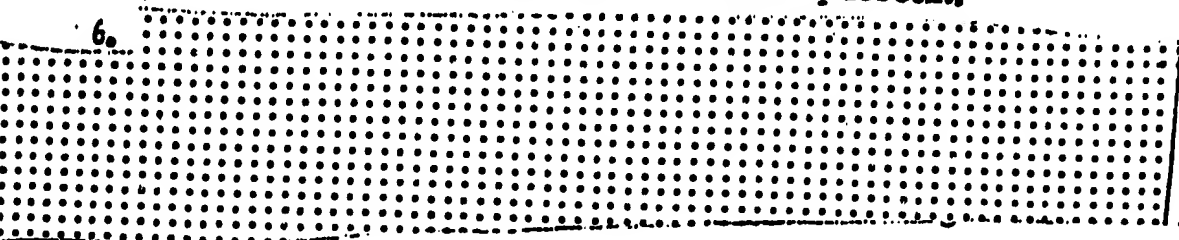
a. Berlin's geographic isolation continued to be its weakest point, and the maintenance of free access to the city continued to be the most urgent problem. In general, the movement of persons and goods between the Federal Republic and West Berlin proceeded on a larger scale and with less difficulties than at any time since the war, but minor harassments continued and the vulnerability of Berlin's line of communications was demonstrated anew. All German surface traffic was stopped by the GDR for one day in October 1957 to facilitate the East German currency conversion. At the same time the East Germans detained, examined, and in some cases confiscated, West German parcel post shipments. In May 1958 new tolls were arbitrarily imposed by the GDR on interzonal waterways traffic, ostensibly to obtain funds to cover expenses which would be incurred through the construction by the Federal Republic of a dam on the Elbe but in fact also as a means of pressuring the Federal Republic to enter high-level negotiations with the GDR. The waterway toll issue developed in the same unproductive fashion as had the Soviet Zone highway toll issue in 1955. The Soviets rejected the Western Powers' protest that the Paris Agreement of 1949 had been violated and insisted that the question was solely within the competence of the Germans, while the Federal Republic declined to give serious consideration to economic countermeasures and decided to reimburse the carriers to cover the toll increase.

b. After a year of threats, minor difficulties, and discussion, the Western Powers and the Soviets agreed on new documentation for Allied official travelers between Berlin and the Federal Republic

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effective December 1957. The Soviets thereupon shifted their attention to the documentation and nature of freight shipments via military trains and trucks. Although the Soviets are now shown documentation (e.g., the travel orders and identity documents of Allied travelers) which they had not seen before, there has been no significant change in the types or volume of Allied travel and goods shipments to and from Berlin. Occasional minor harassments continued, but on the whole Allied access problems are at the moment quiescent.

6.



7. Aviation Problems. (See para. 21 of the Federal Republic Report dated September 3, 1958).

a. Although the contingency does not now appear imminent, planning has been undertaken to deal with a situation in which the Soviets refuse to cooperate in the Berlin Air Safety Center, for example, by refusing to accept flight plans for Western Allied aircraft.

b. It appears likely that flights of East German aircraft in the airspace of the Berlin air corridors may occur in the future on an increasing scale, and planning to deal with this situation has been initiated.

d. The Soviets are attempting, in violation of quadripartite agreements, to limit the Western Powers' use of the Berlin air corridors to altitudes between 2,500 and 10,000 feet. Although these altitudes have generally been adequate to date, the introduction of new jet and turbo-prop aircraft will create an operational need for higher altitudes. The possibility of asserting Western rights to use high altitudes by having U. S. Air Force aircraft conduct test flights above 10,000 feet is under study.

e. In the hope of establishing West German Lufthansa service to Berlin and of developing Berlin as a center of international aviation, the Federal German Government has requested the Western Powers to propose to the U. S. S. R. an agreement under which Berlin would be opened to non-Allied aircraft and the aircraft of the Four

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NOTE: See latest National Intelligence Estimate, 11-3-56, dated 28 February 1956, "Probable Short-Term Communist Capabilities and Intentions Regarding Berlin".

Attachments:

Annex A - Additional Major Developments
(See Financial Annex and Pipeline Analysis for the Federal Republic of Germany).



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ANNEX A

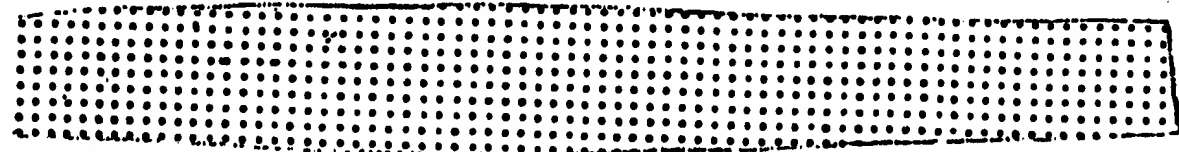
ADDITIONAL MAJOR DEVELOPMENTS

8. **New Governing Mayor.** The election of Willy Brandt as Governing Mayor in October 1957 following the death of Otto Suhr infused new vigor into the administration of the city. Brandt has subsequently replaced Franz Neumann as the Chairman of Berlin's SPD and as a member of the Executive Board of the national SPD, and he appears likely to play an increasingly important role in national politics. A visit to the United States by Brandt in February 1958 confirmed the close ties which both Berlin and its Governing Mayor have with this country and also served to increase Brandt's stature within both Germany and the U. S.

9. **Assurances to Berlin.** The determination of the United States to maintain the status and security of Berlin was re-stated on appropriate occasions, notably by the President to Governing Mayor Brandt during the latter's visit and by the Secretary of State during a visit to Berlin in May 1958.

10. **Aid Program.**

a. The continuing program of aid to Berlin is proving a very effective means of demonstrating in tangible form American support for all that free Berlin has come to represent in opposition to Soviet imperialism. In Fiscal Year 1958, the "impact projects" selected for U. S. assistance included student housing for the Ernst Reuter Foundation and the Technical University, both of which have been endorsed by an ICA housing survey team. U. S. assistance will be given in the construction of a modern hospital to operate in conjunction with the Free University Medical School.



11. **Congress Hall.** The Benjamin Franklin Congress Hall, turned over to the City of Berlin in April 1958, was the outstanding feature of the 1957 International Building Exposition and has become the most strikingly effective symbol of American support for Berlin. Together with the Hilton and other hotels now under construction, the Congress Hall is expected to be of key importance in the City's drive to exploit its tourist potential.

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12. Relations with the Federal Republic. The increasingly close relationship between Berlin and the Federal Republic was exemplified by the election of the Governing Mayor of Berlin, in turn among the Minister-Presidents of the States of the Federal Republic, as President of the Bundesrat. In this capacity Governing Mayor Brandt served as acting Federal President during President Heuss' visits abroad. The Third Bundestag held its constituent session in Berlin in October 1957.

13. Violation of Steinstuecken Border. Members of the East German police (the exact number involved is not clear) entered the tiny U.S. Sector enclave of Steinstuecken on August 7, 1959 to apprehend a defector. In reply to an American protest, the Soviets denied in effect that the border violation had occurred. The West German and West Berlin press, apparently inspired in part by exaggerated accounts of the incident and confused by a lack of understanding of the isolation of and situation in the enclave, not only violently denounced the Soviets but also sharply criticized the U.S. authorities for not taking more effective action. Concern about the situation was also expressed by the Berlin Senat and the Federal German Foreign Office. Means of preventing a recurrence of such violations or coping with them more effectively are now being studied. The key problem is how to get West Berlin police or American troops across the 1000-yards of well-guarded Soviet Zone territory which separate the U.S. Sector proper from the Steinstuecken enclave.

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September 3, 1958

**OPERATIONS COORDINATING BOARD
REPORT ON GERMANY (EAST GERMANY)
(NSC 5803 - Supplement II)**

(Approved by the President on February 7, 1958)
(Period Covered: From July 17, 1957
Through September 3, 1958)

A. SUMMARY EVALUATION

1. Owing to the continued intransigence of the U. S. S. R., no progress could be made during this period toward achievement of the basic long-range objective of the reunification of Germany in freedom. The Communist regime of the Soviet Zone was able to continue the gradual consolidation of its position within Eastern Germany. Measures for greater control of the church, of universities, and of travel to the West have been effectively instituted. The Communist Party leader, Walter Ulbricht, carried out a successful purge of high-ranking party members who had taken a position at variance with his own program for pushing ahead rapidly with further steps of communization.
2. The regime was successful in gaining a certain measure of international acceptance during this period. It received diplomatic recognition from Yugoslavia in 1957. It also succeeded in bringing official representatives of the United States and Belgium to negotiate directly with it for the release of the crews of aircraft which had strayed into the Zone and in inducing the Belgians to sign a formal governmental agreement with it in this connection.
3. Continued use was made of the Western position in the Federal Republic and Berlin to make these areas appear attractive and the Zonal regime correspondingly unattractive in the eyes of the East German. Partially because of these influences, and owing also in part to the broadcasts of RIAS (Radio in the American Sector of Berlin) and to the various joint projects of the German population in maintaining the connections of the East German population in maintaining the connections of the East German population with the West, the population of Eastern Germany has continued opposed to the regime though there is no longer any

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great hope of a resolution of their problems through the reunification of their country in the immediate future.

4. A review of policy is not recommended.

B. MAJOR OPERATING PROBLEMS OR DIFFICULTIES FACING THE UNITED STATES

5. Possibility of Uprising. The potentially most serious operating problem facing the United States is the possibility of an uprising in Eastern Germany. However, by present indications a widespread uprising in Eastern Germany appears unlikely though it always remains a possibility.

a. The U. S. S. R. has attempted to transfer to the Soviet Zone regime its responsibilities for Germany as a whole, for the Soviet Zone and for Berlin under quadripartite agreements and arrangements. Simultaneously, the Soviet Zone regime has attempted to utilize its control over the territory and airspace of Eastern Germany, including the access routes to Berlin, to force the Western Powers, particularly the United States, France, the United Kingdom, and the Federal Republic, to deal with it officially and on a high level. The case of the American helicopter whose crew was forcibly retained by the regime in June 1958 (see paragraph 11 of Annex A to this Report) and used as a basis for the attempt to extort recognition from the United States is an excellent example of this process. Such dealings could be pushed further and further up the scale in the direction of diplomatic recognition. Evidence of Western acceptance could be used by the regime to encourage diplomatic recognition from uncommitted countries, particularly in Asia and the Near East, and to demonstrate to the population of the Soviet Zone that further resistance to the regime is futile since even powerful states hostile to the regime have come to accept it as part of the status quo in international affairs.

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b. Independent of but related to this process, have been the attempts of the GDR regime to exploit the German desire for reunification by bringing public pressure to bear on the Federal German Government to enter upon closer relations with the regime. There is already a considerable body of opinion in Western Germany which sees such relations as the only way to make progress towards German reunification. Closer official contact with East Germany is a part of the official policy of both major opposition parties. This trend would be greatly accentuated by further evidence of Western acceptance of the status quo in Germany, whether voluntary or enforced. Closer official relations between the Government of the Federal Republic and the Soviet Zone regime, whether through extortion or increased political pressure from within the Federal Republic, would have a considerable effect in undermining the case against international recognition of the Zone and in furthering acceptance of the regime outside Germany. Closer official relations could also be a step toward involvement in a morass of negotiations in which the Soviet Zone regime might be able to influence Federal Republic policy by exploiting the desires of the West German population for an improvement in the living conditions of their East German relatives and friends. The Soviet Zone regime might, for example, pose conditions which would limit the freedom of movement of the Federal Republic in foreign policy questions.

c. The GDR regime has also striven to gain membership or participation in governmental and non-governmental international organizations, to establish trade and cultural missions abroad, and to establish connections between its agencies and institutions in the non-Communist world. Success in any of these efforts can be used as a lever to gain admission into additional organizations and given full exploitation in propaganda addressed to the Zonal population as an indication of world acceptance of the regime and the futility of further opposition to it. A further complicating factor in this context lies in the increasing tendency of Western public opinion to confound the Soviet Zone with countries of Eastern Europe with which it may be in the Western interest to improve relations and to feel that closer relations with the Zonal regime may result in an "evolutionary" development there -- an illusory hope in the light of the regime's total dependence on Soviet military support.

7. Declining Morale. A gradual worsening of Soviet Zone morale, as the division of Germany continues, remains a severe problem. The regime is likely to take further repressive measures

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against the churches and within the universities of the Soviet Zone and against travel from the Soviet Zone to the Federal Republic. Such developments, coupled with continued failure of the Western Powers to bring the U. S. S. R. closer to a negotiated settlement of the German question and evidence of increasing international acceptance of the Soviet Zone, may result in increased apathy and an increased tendency to accept the continued existence of the regime as a permanent fact of life. Increases in the pervasiveness of this attitude would naturally assist the regime in further consolidating its position in the Zone.

NOTE: See National Intelligence Estimate NIE 12-56, dated 10 January 1956, "Probable Developments in the European Satellites Through 1960".

Attachment:

Annex A - Additional Major Developments
(See Financial Annex for the Federal Republic of Germany)

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ANNEX A

ADDITIONAL MAJOR DEVELOPMENTS

8. **Economic Developments.** The regime carried out a currency conversion in October 1957 primarily designed to decrease the amount of money in circulation, but aimed also at private businessmen, the churches and other hostile groups in the population. Food rationing was ended in May 1958. As a result of new arrangements with the USSR, programs to induce higher productivity will almost certainly result in the increases of production necessary to meet the economic goals established by the regime for 1958. An extensive economic reorganization on the Soviet pattern is being carried through. In sum, the immediate prospect is that the economy will continue to make steady progress at a higher rate than in the past.

9. **GDR Trade with Non-Communist Countries.**

a. In January 1958 the GDR Foreign Trade Minister claimed that 1957 trade with capitalist countries was 23.7% larger than in 1956, indicating a volume of \$537,900,000 at the official ruble/dollar exchange rate. He also stated that GDR trade with capitalist countries was just under 27% of the country's total foreign trade. Trade with the UAR and Sudan was double the 1956 figure and trade with India 70% higher.

b. New trade agreements (between unofficial contracting parties) were concluded with Italy in mid-1957 and Vietnam in March 1958. The unofficial agreement with Yugoslavia was replaced by a government-to-government agreement in October 1957. Trade agreements with non-communist countries, all unofficial, now number seventeen (including the Federal Republic of Germany). Unofficial trade missions were established on a more or less permanent basis in Argentina, Denmark, Iceland, and Italy, in addition to the officially recognized trade missions in Egypt, Syria, Yemen, Sudan, India, and Indonesia, bringing the total to ten in non-Communist countries.

10. **Refugees.** The refugee flow from the Zone continues, with over 260,000 people leaving the area in 1957. The flow has continued high in 1958, amounting to approximately 96,000 in the first six months of the year. The regime has been suffering from the economic

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effects of this continual drain of productive manpower and has imposed heavy exemplary prison sentences on persons apprehended while attempting to leave the Zone without permission.

11. Soviet Evasion of Responsibility. As indicated above (see paragraph 6. a. of this Report), the obverse of the problem of preventing the acceptance of the GDR regime is that of maintaining the principle of Soviet responsibility in the Soviet Zone. Recently there have been two flagrant instances of Soviet attempts to disclaim such responsibility. On June 7, 1958 a United States Army helicopter mistakenly crossed the zonal border and made a forced landing in the Soviet Zone. Although they were obliged to do so under long-standing agreements and arrangements, the Soviets refused to return the men and the aircraft to United States control, insisting that the matter fell within the competence of the "sovereign" GDR. (The men were returned July 19, 1958 through the mediation of the American and East German Red Cross societies.) On June 18, 1958 an organized mob ransacked the headquarters of the United States Military Liaison Mission to the Soviet Forces in Potsdam. The Soviets took the position that "such demonstrations are an unalterable right of the population of each sovereign democratic republic". Although vigorous protests were made in each instance, it did not appear that the United States and the other Western Powers would have the means to oblige the Soviets to acknowledge their responsibility.

12. Fifth SED Party Congress. The Fifth Party Congress of the Soviet Zone Communist Party, the Socialist Unity Party (SED), took place between July 10-16, 1958, with Khrushchev leading the list of non-German participants from the Soviet Bloc. The main themes of the Congress were (a) that East Germany and the remainder of the Bloc were entering a phase of accelerated economic development and economic interrelationship within the Bloc which would have the result of bringing per capita consumption in Eastern Germany on a level with that of the Federal Republic by 1961; (b) the strength and unity of the Bloc and its inevitable victory over capitalism; and (c) the necessity for relentless eradication of "revisionism" as exemplified by Tito. The Congress criticized Schirdewan, Oelssner, Gelbmann and other party leaders purged by Ulbricht in February of this year, but none was ejected from the Party.

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